# Five Strategic Questions to Ask Your Transfer Agent Before Renewal

**Synopsis:**

Even when corporations are satisfied with their transfer agents, they should periodically review these relationships for three reasons: 1) the registered shareholders base keeps gradually shrinking, which potentially warrants cost reduction; 2) new technologies are enabling service enhancements; and 3) the industry remains very competitive during an era of consolidation. This article describes five questions each public company should ask before renewing transfer agent service contracts.

Transfer agency is one of many relationship-based services public companies procure from third parties — similar in some ways to relationships with auditors, accounting firms and advertising agencies. One important difference is that transfer agents interact with shareholders, as well as company employees.

Public companies and their shareholders may take for granted their existing transfer agent relationships, so changing vendors may not seem worth the effort and expense. Consequently, most transfer agent contracts automatically renew, often as a result of inertia.

This may not always be in the best interest of companies or shareholders. ***Without a comprehensive relationship review, public companies may be missing opportunities to enhance shareholder service, reduce costs, and anticipate or avoid complex challenges down the road.***

## Industry Dynamics

First, let's review the dynamics that are unique to the transfer agency industry, all of which help to understand why a relationship review is important.

Without periodic reviews, your [transfer agent] relationship may fall out of alignment with competitive standards in a dynamic industry.

- **Shrinking registered shareholder base.** Registered shareholders gradually have been reduced to holding only about 2% of all U.S. public company shares. As the registered base keeps steadily shrinking, the projected cost of serving the last remaining registered shareholders will be relatively high for some companies.
- **Tech and service enhancements.** Keeping technology up-to-date and maintaining high service standards is no longer an option for transfer agents. It's become mission-critical in an industry with constantly expanding regulatory requirements.

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- **Competition.** In recent years, the transfer agency industry has consolidated as many firms have been acquired or merged. Even if a company's registered shareholder base keeps shrinking, its business can be incrementally profitable for a transfer agent. It pays to stay abreast of the competitive market, especially as contracts approach renewal.

## Five Questions to Ask about Your Transfer Agent Relationship

Although each transfer agent contract may provide for an automatic renewal, the renewal of the relationship should not be automatic. Rather, the renewal of the contract and the relationship should be based on a consistent review process to determine how well your transfer agent is meeting current needs at competitive costs. Here are five strategic questions that can help to focus a service contract review process.

1. **How do our current service needs and costs compare with those of a few years ago?** In a dynamic industry, change should be expected. A continuation of the status quo, year after year, can be an indicator of opportunities for a better contract, as shown by two examples:

**Example 1:** After the 2008-09 financial crisis, hundreds of public companies stopped paying quarterly dividends to conserve cash. Yet, some transfer agents have not yet made meaningful adjustments in their costs to account for less dividend-payment responsibility.

*Why is this important?* The perspective of several years' time can be useful in evaluating a long-term transfer agent relationship. If the ratio of service-to-cost has declined, your company should be aware of the fact and use it for leverage. At some companies, procurement policies require cost-benefit analysis and in-depth vendor reviews in such cases.

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**Example 2:** In scrutinizing bills and statements, you may notice variances over time in fees paid to your transfer agent for services such as proxy tabulations or filing Form 1099s.

*Why is this important?* The transfer agent business is relatively predictable, and relationships with top-tier providers normally produce few unplanned variances. Service costs can be anticipated and budgeted —and they should always be clearly disclosed.

2. **What are the deadlines and terms for our renewal process?** By asking this question, you can open a dialogue with your transfer agent, while also avoiding the potential impact of automatic renewals.

   *Why is this important?* When companies are not aware of their contract terms or deadlines, it can be costly. Under an "exit clause" contained in many contracts, the current transfer agent may impose additional fees if contracts are not renewed by specified deadlines. Contracts also may contain terms that automatically lock in the current vendor and specified terms (including automatic cost increases) unless timely notice is given. There is no reason for surprises about renewal dates and terms. Start talking to your transfer agent early, and get the answers you need well before the renewal date.

3. **Is the transfer agent clearly disclosing any way that it monetizes revenue from our shareholder base?** For example, a transfer agent may select a third-party administrator to handle escheating services and then share in revenues paid by public companies to these firms, without clearly disclosing them.

   *Why is this important?* Honesty is good policy, and clear disclosures help to make relationships more transparent. You should know all ways that your shareholders are being monetized.

4. **What do your shareholders think?** If your transfer agent's service levels are falling, your shareholders are experiencing it. But unless you inquire, they may not reveal what they think and feel.

   *Why is this important?* Surveying shareholder satisfaction can be important preliminary step in reviewing or re-negotiating contracts. At minimum, a survey can help to address current shareholder concerns and set service standards for the next contract.

5. **What will be the cost of the last registered shareholder?** Some publicly traded funds are reporting registered shareholder attrition rates of 5% or more per year, which means the registered base will decline predictably by 20-30% over the next 3-5 year contract.

   *Why is this important?* Long-term contracts should be based on predictable trends. Over the next decade, your company could be paying a very high rate (per capita) to serve the few remaining registered shareholders. Now is the best time to forecast attrition and evaluate the impact on service levels and costs.

### How to Assure the Right Relationship Track

Strong long-term relationships between companies and transfer agents are desirable. But without periodic reviews, your relationship may fall out of alignment with competitive standards in a dynamic industry. Your next contract renewal offers an opportunity to "true-up" the relationship by evaluating: 1) changes in your registered shareholder base; 2) service levels and satisfaction; 3) competitive industry trends; and 4) terms proposed by your current vendor and competitors. It never hurts to know what other transfer agents are offering, and what other public companies are negotiating.

It's important for corporate secretaries (and others who lead negotiations) to stay in touch with transfer agent industry events and trends. Talk to competitors and develop a deeper dialogue with your own vendor, including the five strategic questions above. Start the review process at least six months before contract renewal to cover all bases without pressure.

*Transfer agent services are not now, and will never be, a commodity business. More than ever, this is a relationship business. A thorough review process will help to ensure your relationship stays on track.*

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